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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF
RIO RICO UTILITIES, INC., AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PLANTS AND PROPERTY AND FOR
INCREASES IN ITS WATER AND
WASTEWATER RATES AND CHARGES
FOR UTILITY SERVICE BASED THEREON.

Docket No. WS-02676A-09-0257

NOTICE OF FILING TESTIMONY SUMMARIES

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing
the Testimony Summaries of William A. Rigsby, CRRA, and Timothy J. Coley in the above-
referenced matter.

RESPECTFULLY SUBMITTED this 8th day of March, 2010.

Arizona Corporation Commission

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MAR - 8 2010

DOCKETED BY

Daniel W. Pozefsky
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 8th day
3 of March, 2010 with:

4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

8 COPIES of the foregoing hand delivered/
9 mailed this 8th day of March, 2010 to:

10 Jane L. Rodda
11 Administrative Law Judge
12 Hearing Division
13 Arizona Corporation Commission
14 100 W. Congress
15 Tucson, Arizona 85701

16 Janice Alward, Chief Counsel
17 Robin Mitchell, Counsel
18 Legal Division
19 Arizona Corporation Commission
20 1200 West Washington
21 Phoenix, Arizona 85007

22 Steven M. Olea, Director
23 Utilities Division
24 Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Jay L. Shapiro, Esq.
Todd C. Wiley, Esq.
Fennemore Craig, P.C.
3003 N. Central Avenue
Suite 2600
Phoenix, AZ 85012

Michael Patten
Roshka DeWulf & Patten PLC
400 East Van Buren, Suite 800
Phoenix, Arizona 85004

Kristin Mayes, Chairman
Arizona Corporation Commission

Giancarlo Estrada
Advisor to Chairman Mayes

Commissioner Gary Pierce
Arizona Corporation Commission

John Le Sueur
Advisor to Commissioner Pierce

Commissioner Paul Newman
Arizona Corporation Commission

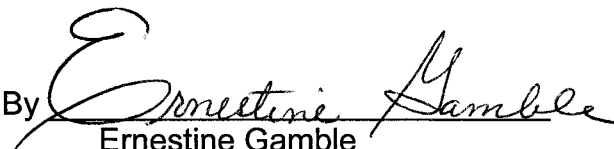
Alan Stephens
Advisor to Commissioner Newman

Commissioner Sandra D. Kennedy
Arizona Corporation Commission

Christina Arzaga-Williams
Advisor to Commissioner Kennedy

Commissioner Bob Stump
Arizona Corporation Commission

Amanda Ho
Advisor to Commissioner Stump

By 
Ernestine Gamble

Rio Rico Utilities, Inc.
Docket No. WS-02676A-09-0257
Rate Case

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of RUCO witness William A. Rigsby, CRRA, on Rio Rico Utilities, Inc.'s ("RRUI" or "Company") application for a permanent rate increase. Mr. Rigsby is providing testimony on the cost of capital issues associated with RRUI's request for a rate increase. The underlying theory and rationales for Mr. Rigsby's recommendations on these issues are contained in the above referenced documents. The significant issues associated with the case are as follows:

Weighted Cost of Capital – Mr. Rigsby is recommending that a 7.90 percent weighted cost of capital be applied to RRUI's fair value rate base ("FVRB").

Mr. Rigsby's 7.90 percent figure is the result of his recommended hypothetical capital structure, his recommended hypothetical cost of long-term debt, and his recommended cost of common equity.

Capital Structure – Mr. Rigsby is recommending that the Commission adopt a hypothetical capital structure comprised of 40.0 percent long-term debt and 60.0 percent common equity.

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA (Cont.)

Cost of Long-Term Debt – Mr. Rigsby is recommending that the Commission adopt a hypothetical 6.26 percent cost of long-term debt. Mr. Rigsby's recommended hypothetical 6.26 percent cost of debt is an average of the weighted costs of long-term debt of seven publicly traded water utilities followed by Value Line analysts.

Cost of Common Equity – Mr. Rigsby is recommending an 9.00 percent cost of common equity. Mr. Rigsby's 9.00 percent figure falls on the high side of the range of results obtained from his cost of equity analysis which used both the discounted cash flow ("DCF") and capital asset pricing model ("CAPM") methodologies.

Rio Rico Utilities, Inc.
Docket No. WS-02676A-09-0257
Rate Case

SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimonies of RUCO witness Timothy J. Coley, on Rio Rico Utility, Inc. ("RRUI" or the "Company") application for a permanent rate increase for the Company's water and wastewater operations in Arizona. A full discussion of the rate base, operating income, other issues, and rate design issues associated with RRUI's request are contained in the referenced documents. RUCO witness, Mr. William A. Rigsby, will address the cost of capital issues associated with RRUI's request for rate relief. The significant rate base, operating income, other issues, and rate design issues associated with the case are as follows:

RATE BASE:

RUCO Rate Base Adjustment #2 – Accumulated Deferred Income Taxes ("ADIT") – This adjustment allocates RRUI's parent company's, Algonquin Power Income Fund ("APIF"), net ADIT liability balance to RRUI based on the Company's asset value to APIF's total asset value. The adjustment reduces RRUI's ADIT asset balance by \$1,279,653 to RUCO's recommended ADIT liability balance of \$501,450 for the water division. For the wastewater division, the adjustment reduces RRUI's ADIT asset balance by \$532,121 to RUCO's recommended ADIT liability balance of \$208,519.

SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY (Cont.)

RUCO Rate Base Adjustment #3 – Advances in Aid of Construction (“AIAC”) and Contributions in Aid of Construction (“CIAC”) – This is a conforming adjustment that all intervening parties agreed to during the course of this proceeding. For the water division, the adjustment increases AIAC by \$48,724 to \$122,372. A corresponding adjustment for CIAC is made to decrease CIAC by the same \$48,724 to \$20,140,197 for the water division. In the wastewater division, this is also a conforming adjustment that all intervening parties agreed to during the course of this proceeding. For the wastewater division, the adjustment increases AIAC by \$238,783 to \$237,922. A corresponding adjustment for CIAC is made to decrease CIAC by the same \$238,783 to \$5,137,673 for the wastewater division.

OPERATING INCOME:

RUCO Operating Adjustment #1 – Revenue Annualization – This adjustment reverses the Company’s negative revenue annualization adjustment back to test-year end levels of revenue for both the water and wastewater divisions. RUCO’s adjustment increases revenue by \$4,794 for the water division and increases the wastewater division’s revenue by \$4,505. The test-year end customer count was approximately 350 fewer customers in December than in the month of June. This appears to be the result of seasonality rather than a mass exodus from RRUI’s certificated area.

SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY (Cont.)

RUCO Operating Adjustment #2 – Annualization of Purchased Power and Chemical Expense – These adjustments are related to RUCO's operating income adjustment #1. RUCO's adjustment to increase revenue due to reversing the Company's negative revenue annualization adjustment also increases the purchased power and chemical costs of pumping more water and treating more wastewater. This adjustment increases the water division's pumping costs by \$2,334 and increases the wastewater division's pumping and chemical expenses by \$388 and \$212 respectively.

RUCO Operating Adjustment #3 – Depreciation Expense – This adjustment calculates depreciation and amortization expense based on RUCO's recommended plant levels. The adjustment increases both the water and wastewater depreciation expense by \$1,687 and \$9,361 respectively.

RUCO Operating Adjustment #4 – Property Tax Expense – This adjustment calculates property tax expense based on a modified Arizona Department of Revenue ("ADOR") formula that has been adopted by the Commission in a number of prior rate cases. The adjustment decreases property tax expense by \$31,900 and \$12,189 for the water and wastewater divisions respectively.

SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY (Cont.)

RUCO Operating Adjustment #5 – Rate Case Expense – This adjustment reflects RUCO's best estimate of rate case expense, to be amortized over three years, for this proceeding based on information provided by the Company. The adjustment decreases rate case expense by 25 percent for each division. It reduces rate case expense by \$17,500 and \$10,417 for the water and wastewater divisions respectively. A final estimate, based on updated information from RRUI, will be reflected in RUCO's final schedules after the evidentiary hearing is concluded.

RUCO Operating Adjustment #6 – Miscellaneous Expense – This adjustment removes certain donations and charitable contributions from the water division only. It decreases the water division's miscellaneous expense by \$1,363. The Company has agreed with RUCO's adjustment and adopted it in rebuttal testimony.

RUCO Operating Adjustment #7 – Purchased Power Expense – This is an adjustment that arose during the proceeding that all intervening parties have agreed upon. It removes \$48,005 of purchased power expense from the water division and charges the same amount to the wastewater division.

SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY (Cont.)

RUCO Operating Adjustment #8 – Transportation Expense – This adjustment was offered by the Company in its rebuttal testimony. RUCO accepted the Company's adjustment, which removes an affiliate charges for corporate executive jets. It decreases both the water and wastewater divisions' transportation expense by \$6,725 and \$2,242 respectively.

RUCO Operating Adjustment #9 – Out of the Test-Year Period Expense – RUCO adopts the adjustment that Staff made in its direct testimony and the Company accepted. It reduces the water division's outside services account by \$14,477 for the water division only.

RUCO Operating Adjustment #10 – Actual Central Office Costs ("APT") Allocations – In the Company's rebuttal testimony, RRUI updated the central office costs from an estimated amount to an actual amount of test-year central office costs. RUCO disallowed the majority of the APT costs but did allow a marginal amount of the costs. The adjustment increases outside services costs by \$3,274 and \$1,346 for the water and wastewater divisions respectively.

RUCO Operating Adjustment #11 – Central Office Costs ("APT") Allocations – RUCO disallowed the majority of the APT cost allocations as not needed and/or is not of a benefit in the provisioning of RRUI utility services to ratepayers. The

SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY (Cont.)

adjustment reduces the Company's APT cost allocations by \$98,643 and \$31,604 for the water and wastewater divisions respectively.

RUCO Operating Adjustment #12 – Unamortized Rate Case Expense – RUCO originally made this adjustment to remove what apparently was unamortized rate case expense from a prior rate case. After further inquiry, RUCO verified that it was not unamortized rate case expense from a prior rate case. RUCO abandons this adjustment.

RUCO Operating Adjustment #13 – Normalize Bad Debt Expense – This adjustment normalizes bad debt expense over a three-year historical period. The Company accepted this adjustment in its rebuttal testimony. It increases test-year bad debt expense by \$799 for the water division and reduces test-year bad debt expense for the wastewater division by \$30,315.

RUCO Operating Adjustment #14 – Income Tax Expense – This adjustment calculates the appropriate level of income tax expense given RUCO's recommended operating income.

SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY (Cont.)

OTHER ISSUES:

The Company proposed four new or different tariff changes in its rate application as filed. The new tariff additions that the Company is requesting in this application are (1) a low income program ("LIP"), which currently does not exist, (2) a hook up fee ("HUF"), which currently does not exist too, and ("3") a late payment finance charge, which currently does not exist also. The fourth tariff change that RRUI requests to add is a new service line installation charge that would be based on actual costs to install the service line rather than a constant fixed price, which the current tariff dictates. RUCO's recommendation to the Commission for the four tariff additions or changes is as follows:

Low-Income Program ("LIP")

RUCO does not oppose the LIP as proposed by the Company.

Hook Up Fee ("HUF")

RUCO does not support the Company's HUF as proposed by the Company for the reason given in its errata filing.

SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY (Cont.)

New Service Line Installations

RUCO prefers that the current rates in the tariff be maintained.

Late Payment Finance Charge

RUCO supports the late payment finance charge as proposed by RRUI.

RATE DESIGN:

RUCO's rate design mirrors the Company's with the exception RUCO's recommended revenue requirements. RUCO's rate design has a three-tier inverted block rate design for the 5/8 inch customers and a two-tier block rate design for all remaining meter sizes.